

**CITY OF ROCK RAPIDS**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2010**

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## City of Rock Rapids

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Jason Chase	Mayor	January 1, 2010
Donald DeYong	Council Member	January 1, 2010
Carol Oliver	Council Member	January 1, 2010
Marlene Bowers	Council Member	January 1, 2012
Heather Stubbe	Council Member	January 1, 2012
Joe Vander Zee	Council Member	January 1, 2012
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Nancy DeJongh	Library Trustee	July 1, 2011
Trish Starrett	Library Trustee	July 1, 2011
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Jackie Austin	Library Trustee	July 1, 2015
Judy Gaspar	Library Trustee	July 1, 2015
Rhoda Lange	Library Trustee	July 1, 2015
Michael R. Austin	City Attorney	Indefinite (Appointed)

## City of Rock Rapids

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(After January 2010)</b>		
Jason Chase	Mayor	January 1, 2012
Marlene Bowers	Council Member	January 1, 2012
Heather Stubbe	Council Member	January 1, 2012
Joe Vander Zee	Council Member	January 1, 2012
Justin Christensen	Council Member	January 1, 2014
Cody Hoefert	Council Member	January 1, 2014
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Nancy DeJongh	Library Trustee	July 1, 2011
Trish Starrett	Library Trustee	July 1, 2011
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Jackie Austin	Library Trustee	July 1, 2015
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Rhoda Lange	Library Trustee	July 1, 2015
Michael R. Austin	City Attorney	Indefinite (Appointed)

# **DE NOBLE & COMPANY PC**

Certified Public Accountants

## **MEMBERS**

111 S. Story Street  
Rock Rapids, IA 51246

American Institute - Certified Public Accountants  
Private Companies Practice Section  
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549  
Fax : (712) 472-2540  
Email : ssdnrr@hickorytech.net

## **Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Rock Rapids' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2011 on our consideration of the City of Rock Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting

or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for the primary government on pages 5 through 10 and 25 through 27 are not required parts of the basic primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five fiscal years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two fiscal years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic primary government financial statements taken as a whole.



De Noble & Company PC  
Certified Public Accountants

June 29, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Rock Rapids provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 53.4%, or \$1,589,818, from fiscal 2009 to fiscal 2010. Charges for services increased \$322,149; capital grants, contributions and restricted interest decreased \$286,520; property and other city tax decreased \$94,587; and capital loan note proceeds increased \$1,675,000.
- Disbursements decreased 8.3%, or \$390,494, in fiscal year 2010 from fiscal year 2009. The largest decreases were in the public safety and capital projects functions which decreased by \$186,773 and \$844,571 respectively. Disbursements in the public works and culture and recreation functions increased by \$386,231 and \$131,222, respectively.
- The City's total cash basis net assets from governmental activities increased by 9.5%, or \$256,578, from June 30, 2009 to June 30, 2010. This increase is due primarily to capital loan note proceeds in the amount of \$1,675,000 during fiscal year 2010. The fiscal year 2010 increase is significantly different than the 2009 fiscal year decrease of \$1,723,734.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. The fund financial statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds of the City's primary government.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-Wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Primary Government reports information which helps answer this question.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater, gas and communications, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, intergovernmental revenues, local option sales taxes, charges for services and donations finance most of these activities.

### *Fund Financial Statements*

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund; (2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment, Revolving Loan and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental fund primary government financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Primary Government.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities increased from \$2,708,398 to \$2,964,976. The analysis that follows focuses on changes in cash basis net assets for governmental activities.

### Changes in Cash Basis of Net Assets of Governmental Activities

	Year Ending June 30,	
	2010	2009
Receipts:		
Program Receipts:		
Charges for Service	\$ 693,992	\$ 371,843
Operating Grants, Contributions and Restricted Interest	379,921	388,179
Capital Grants, Contributions and Restricted Interest	236,701	523,221
General Receipts:		
Property and Other City Tax	1,151,892	1,246,479
Tax Increment Financing	124,264	116,926
Local Option Sales Tax	177,948	178,603
Capital Loan Note Proceeds	1,675,000	0
Grants and Contributions Not Restricted		
To Specific Purpose	73,931	74,544
Unrestricted Investment Earnings	18,845	28,437
Other General Receipts	37,016	51,460
Total Receipts	4,569,510	2,979,692
Disbursements:		
Public Safety	275,426	462,199
Public Works	885,920	499,689
Culture and Recreation	592,245	461,023
Community and Economic Development	290,526	252,009
General Government	214,121	176,716
Debt Service	946,888	899,413
Capital Projects	1,107,806	1,952,377
Total Disbursements	4,312,932	4,703,426
Increase (Decrease) in Cash Basis Net Assets	256,578	( 1,723,734)
Cash Basis Net Assets Beginning of Year	2,708,398	4,432,132
Cash Basis Net Assets End of Year	\$ 2,964,976	\$ 2,708,398

The City's total receipts for governmental activities increased by 53.4%, or \$1,589,818. The total cost of all programs and services decreased by \$390,494, or 8.3%. The increase in receipts was mainly the result of the following: (1) an increase in capital loan note proceeds for financing of a street construction project and for early retirement of two outstanding bond issues; and (2) an increase in charges for services due to the collection of special assessments. This increase in comparison to the previous fiscal year was offset by a decrease in capital grants, contributions and restricted interest (due to having received, during the prior fiscal year, grants for the recreation trail project and reimbursement from Municipal Utilities for the water construction portion of a street project). A decrease in the tax levy on regular property, from \$21.76517 to \$19.58543, partially offset by an increase in the regular taxable valuation of property, by approximately 3.6%, resulted in a decrease in property and other city taxes of \$94,587 during fiscal year 2010.

The cost of all governmental activities this year was \$4,312,932, compared to \$4,703,426 last fiscal year. The decrease in disbursements during the fiscal year was mainly due to decreases in street construction costs (capital projects function) and purchase of a new fire truck (public safety function) during the previous fiscal year. This decrease, in comparison to the previous fiscal year, was partially offset by increases in land and equipment purchases (public works function) and in park improvement costs (culture and recreation function). The amount taxpayers ultimately financed for these activities was only \$3,002,318, because some of the cost was paid by those who directly benefited from the programs (\$693,992) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$616,622). The City paid for the remaining "public benefit" portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general entitlements, unrestricted investment earnings and other miscellaneous revenues.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$2,964,976, an increase of \$256,578 above last year's total of \$2,708,398. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$35,834, from \$701,494 to \$665,660 at June 30, 2010. This compares to a \$152,396 decrease in the prior fiscal year. Receipts and other financing sources increased from the prior fiscal year by \$249,483. The majority of the increase was due to \$281,927 transfer in from the Local Option Sales Tax Fund, as well as the receipt of a \$50,000 grant from Forster Charitable Trust for the soccer field project. These increases were offset by a decrease of \$72,939 received in fiscal year 2009 from IDOT for matching funds for airport improvements. Disbursements and other financing uses increased from the prior fiscal year by \$132,921 due to the following: an increase of \$193,434 in the public works function due mainly to land purchased; an increase of \$137,489 in the culture and recreation due to park expenditures for capital improvements and community center improvements; and an increase of \$33,862 in the general government function mainly due to the purchase of computer software. These increases in disbursements were offset by decreases in the public safety function by \$186,833 due to purchase of a fire truck the previous year and in operating transfers out by \$48,000 due to starting the Revolving Loan Fund in the prior fiscal year.
- The Road Use Tax Fund cash balance decreased by \$140,493, from \$571,155 to \$430,662 at June 30, 2010. This compares to a \$30,324 increase the prior fiscal year. This decrease during the fiscal year is due primarily to an increase in purchases of capital equipment from reserve funds.
- The Library Memorial Trust Fund increased by \$17,859 from \$313,287 to \$331,626 at June 30, 2010. This compares to a \$480 increase the prior fiscal year. The increase is due primarily to a decrease in disbursements by \$16,311.
- The Debt Service Fund cash balance increased by \$39,001, from \$43,386 to \$82,487, at June 30, 2010. This compares to a decrease by \$84,131 during the prior fiscal year. Increases in receipts from general obligation capital loan notes proceeds of \$465,000 for the purpose of refinancing outstanding bonds were offset by decreases in property and other city taxes and transfers in of \$123,914 and \$173,890, respectively. Disbursements increased mainly due to increases in payment on principal by \$77,000 due to early retirement, offset in part by decreases of \$39,708 in interest and service charges due to early retirement during the prior fiscal year.
- The Capital Projects Fund cash balance increased \$544,341, from \$701,384 to \$1,245,725 at June 30, 2010. This compares to a decrease of \$1,465,283 the prior fiscal year. Receipts and other financing sources increased by \$1,165,053 due to increases of \$1,210,000 and \$328,832 for note proceeds and special assessment collections, respectively. These increases were offset by decreases of \$171,156, \$85,973 and \$87,764 for federal grants, transfers in and utility reimbursements respectively. Disbursements decreased by \$844,571 due to decreases in street and sewer construction costs.

## BUDGETARY HIGHLIGHTS

The City amended its portion of the certified budget once during the year, on May 24, 2010. This amendment resulted in a net decrease of \$5,900,000 in total budgeted receipts and other financing sources and a net decrease of \$4,900,000 in total budgeted disbursements for the City only portion of the budget. This budget amendment did not affect the Utilities portion of the City's budget.

The reason for the decrease in budgeted operating receipts was identified as a decrease in intergovernmental revenues due a decrease in federal and state stimulus funding. This decrease was partly offset by an increase in other financing sources due to an increase in proceeds of debt for capital projects and debt refinancing.

The reason for the decrease in budgeted operating disbursements was identified as a decrease in capital projects that were to be funded by federal and state stimulus funds. This decrease was partly offset by increases in budgeted operating disbursements, identified as follows: (1) Public Works – increase for stormwater control projects; (2) Culture and Recreation – increase for park, library and community center improvements; (3) Community and Economic Development – increase for economic development; (4) Debt Service – increase for refinancing of callable bonds.

Actual receipts came in \$24,537, or 0.8%, above budget for the City only portion of the certified budget. Significant variances in budget-to-actual receipts occurred with intergovernmental receipts, which came in \$243,783, or 33.9%, below budget. This decrease was offset due to special assessment receipts coming in \$258,821 over budget resulting from delays in closeout of the 2008 street construction project. These items were also partly offset by (a) having budgeted for, but not received, state stimulus funding for capital projects, and (b) having budgeted for total receipts for Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for receipts and disbursements, but never includes any actual figures.

Disbursements came in \$2,024,807, or 31.9%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for community and economic development came in \$727,364, or 71.4%, below budget due to actual costs for economic development coming in below expected costs. Disbursements for capital projects came in \$869,994, or 44.0%, below budget, due to delay in the start of the street construction project. The net cash change for the fiscal year came in \$2,049,343 better than budgeted for the City only portion of the certified budget.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$4,070,000 in notes, bonds and other long-term debt, compared to \$3,220,000 last year, as shown below:

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<i>Outstanding Debt at Year-End</i>		
<u>TYPE OF DEBT</u>	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
General Obligation Notes	\$ 3,850,000	\$ 2,950,000
Grant Anticipation Notes	<u>220,000</u>	<u>270,000</u>
Total Long Term Debt	<u>\$ 4,070,000</u>	<u>\$ 3,220,000</u>

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The City Council issued \$1,675,000 in general obligation capital loan notes to finance street and sewer reconstruction projects and for early retirement of \$465,000 of callable outstanding general obligation debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,850,000 (total debt of \$4,070,000 minus grant anticipation notes of \$220,000) is adequately below its constitutional debt limit of \$5,398,138.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The elected and appointed officials and citizens of the City of Rock Rapids considered many factors when setting the fiscal year 2011 budget, tax rates and fees that will be charged for various City activities. Among these factors is the growing disparity between the tax obligations of residential and commercial/industrial property.

Under the rollback factor, residential property was taxed at 45.6% of actual value for the 2010 fiscal year and increases by 1.3%, to 46.9%, for the 2011 fiscal year. Commercial and industrial property remains taxed at 100%, resulting in an ongoing disparity between the rates for commercial and industrial property respectively and the rate for residential property.

The resulting disproportionate share of taxes levied on commercial and industrial property adds to the challenges of competing with bordering states in economic development activities. As a remedy, a freezing of the residential rollback factor, coupled with a decrease in the commercial/industrial rollback factor, would bring the latter closer to the rates applicable to residential property.

These indicators were taken into account when adopting the budget for fiscal year 2011. In recent years, the City has worked to control tax rates by implementing certain structural changes and greater reliance on alternate sources of revenue. While the tax rate will remain the same from fiscal year 2010 to 2011, the regular taxable valuation increases by \$7,517,470, or 13.1%, resulting in a projected increase of \$160,917 in property and other city tax revenues (excluding Local Option Sales Taxes). This more than offsets the previously projected decrease of approximately \$88,000, or 0.1% in property taxes collected for fiscal year 2009. Except for capital improvements, the 2011 fiscal year budget provides for a deficit of approximately \$300,000. However, this budget also allows the City to maintain an adequate cash reserve due to having accumulated surplus cash reserves in recent years.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jordan Kordahl, City Administrator, 310 South 3<sup>rd</sup> Avenue, Rock Rapids, Iowa 51246.

**City of Rock Rapids**  
**Basic Primary Government Financial Statements**

City of Rock Rapids

Statement of Activities and Net Assets – Cash Basis  
Primary Government

As of and for the Year Ended June 30, 2010

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities
	Disbursements				
<b>Functions/Programs:</b>					
Governmental Activities:					
Public Safety	\$ 275,426	8,400	28,477	0	( 238,549)
Public Works	885,920	204,636	238,676	41,368	( 401,240)
Culture and Recreation	592,245	99,293	50,983	74,225	( 367,744)
Community and Economic Development	290,526	7,148	26,464	0	( 256,914)
General Government	214,121	12,694	28,927	0	( 172,500)
Debt Service	946,888	9,809	6,394	65,000	( 865,685)
Capital Projects	1,107,806	352,012	0	56,108	( 699,686)
Total Governmental Activities	\$ 4,312,932	693,992	379,921	236,701	( 3,002,318)
<b>General Receipts:</b>					
Property and Other City Tax Levied for:					
General Purposes					607,630
Employee Benefits					104,576
Debt Service					439,686
Tax Increment Financing					124,264
Local Option Sales Tax					177,948
Capital Loan Notes Proceeds					1,675,000
Grants and Contributions not Restricted to Specific Purposes					73,931
Unrestricted Interest on Investments					18,845

Rents	26,091
Perpetual Cemetery Care - Sale of Lots	3,980
Notes Receivable Payments	2,645
Sale of Assets	4,300
	<hr/>
Total General Receipts	3,258,896
	<hr/>
Change in Cash Basis Net Assets	256,578
Cash Basis Net Assets Beginning of Year	2,708,398
	<hr/>
Cash Basis Net Assets End of Year	<u><u>\$ 2,964,976</u></u>
<b>Cash Basis Net Assets</b>	
Restricted:	
Nonexpendable:	
Library Endowment & Cemetery Perpetual Care	\$ 51,180
Expendable:	
Road Use Tax (Streets)	430,662
Library Projects	331,626
Capital Projects	1,245,725
Debt Service	82,487
Other Purposes	157,636
Unrestricted	665,660
	<hr/>
<b>Total Cash Basis Net Assets</b>	<u><u>\$ 2,964,976</u></u>

See Notes to Financial Statements.

## City of Rock Rapids

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
 Governmental Funds  
 Primary Government

As of and for the Year Ended June 30, 2010

	General	Special Revenue		Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
		Road Use Tax	Library Memorial Trust				
Receipts:							
Property Tax	\$ 606,587	0	0	438,978	0	102,890	1,148,455
Tax Increment Financing	0	0	0	0	0	124,264	124,264
Other City Tax	1,043	0	0	708	0	179,634	181,385
Licenses and Permits	7,354	0	0	0	0	0	7,354
Use of Money and Property	69,341	4,806	7,130	5,994	7,865	1,964	97,100
Intergovernmental	212,071	238,676	0	0	43,243	24,500	518,490
Charges for Service	270,000	0	0	0	0	1,049	271,049
Special Assessments	0	0	0	9,809	352,012	0	361,821
Miscellaneous	89,211	5,821	12,515	65,400	5,000	6,645	184,592
Total Receipts	1,255,607	249,303	19,645	520,889	408,120	440,946	2,894,510
Disbursements:							
Operating:							
Public Safety	256,097	0	0	0	0	19,329	275,426
Public Works	456,729	378,558	0	0	0	50,633	885,920
Culture and Recreation	543,859	0	1,786	0	0	46,600	592,245
Community and Economic Development	130,139	0	0	0	0	160,387	290,526
General Government	184,544	0	0	0	0	29,577	214,121
Debt Service	0	0	0	946,888	0	0	946,888
Capital Projects	0	0	0	0	1,107,806	0	1,107,806
Total Disbursements	1,571,368	378,558	1,786	946,888	1,107,806	306,526	4,312,932



Excess (Deficiency) of Receipts Over (Under) Disbursements	(315,761)	( 129,255)	17,859	( 425,999)	( 699,686)	134,420	( 1,418,422)
Other Financing Sources (Uses):							
Proceeds of Capital Loan Notes	0	0	0	465,000	1,210,000	0	1,675,000
Operating Transfers In	281,927	0	0	0	34,027	0	315,954
Operating Transfers Out	(2,000)	(11,238)	0	0	0	(302,716)	( 315,954)
Total Other Financing Sources (Uses)	279,927	(11,238)	0	465,000	1,244,027	(302,716)	1,675,000
Net Change in Cash Balances	( 35,834)	(140,493)	17,859	39,001	544,341	(168,296)	256,578
Cash Balances Beginning of Year	701,494	571,155	313,767	43,486	701,384	377,112	2,708,398
Cash Balances End of Year	\$ 665,660	430,662	331,626	82,487	1,245,725	208,816	2,964,976
<b>Cash Basis Fund Balances</b>							
Reserved for Debt Service	\$ 0	0	0	82,487	0	0	82,487
Unreserved:							
General Fund	665,660	0	0	0	0	0	665,660
Special Revenue Funds	0	430,662	331,626	0	0	157,636	919,924
Capital Projects Fund	0	0	0	0	1,245,725	0	1,245,725
Permanent Funds	0	0	0	0	0	51,180	51,180
Total Cash Basis Fund Balances	\$ 665,660	430,662	331,626	82,487	1,245,725	208,816	2,964,976

See Notes to Financial Statements.

## City of Rock Rapids

### Notes to Primary Government Financial Statements

June 30, 2010

#### (1) Summary of Significant Accounting Policies

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services.

##### A. Reporting Entity

For financial reporting purposes, the City of Rock Rapids has included all funds, organizations, agencies, boards, commissions, and authorities of the primary government. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of component units of the City of Rock Rapids, do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2010, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described here in Note 1.

Component Units – If it were not for the City of Rock Rapids preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Assets – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities' office. A copy of the Municipal Utilities' audit report is available for the public's review. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Community Affairs Corporation/Municipal Housing office.

The City of Rock Rapids received \$181,578 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2010 (\$169,722 is intergovernmental receipts, \$4,300 sale of assets, donated

Christmas lights with a value of \$2,276 and \$5,280 is charges for service). Of the \$169,722 in intergovernmental receipts from the Rock Rapids Municipal Utilities, \$123,455 is donations, \$3,024 is for the Utilities share of the joint residential housing demolition project, and \$43,243 is a reimbursement for the Utilities share of a construction contract. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,556 for garbage/recycling billing and collection services. The City of Rock Rapids did not receive any money from or pay any money to the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2010.

Jointly Governed Organizations – The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Northwest Iowa Regional Housing Authority and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2010, the City did not contribute any money to the Assessor, E911, Emergency Management, Economic Development Consortium, the Northwest Iowa Area Solid Waste Agency, the Northwest Iowa Regional Housing Authority or HAZMAT.

## B. Basis of Presentation

Government-Wide Financial Statement – The Statement of Activities and Net Assets – Primary Government reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government nonfiduciary net assets. Net assets are reported in the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets – Primary Government demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and grant anticipation long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

#### C. Measurement Focus and Basis of Accounting

The City of Rock Rapids maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements for the City of Rock Rapids did not exceed the amounts budgeted in any function at the end of the fiscal year.

### (2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

### (3) Notes Receivable - Revolving Loan Fund

The City established a Revolving Loan Fund for the purpose of lending monies for various economic development projects at a reasonable rate of interest to promote economic development within the City.

The notes issued carry an interest rate of 3.5% payable over ten years. The balances as of June 30, 2010 are computed as follows:

Balance on June 30, 2009	\$	0
New Notes Issued		50,000
Payments on Principal		<u>( 2,645)</u>
Balance on June 30, 2010	\$	<u>47,355</u>

The following are the scheduled amounts of notes receivable principal (net of allowance for doubtful accounts) coming due for the fiscal years ending:

June 30, 2011	\$	4,343
June 30, 2012		4,499
June 30, 2013		4,660
June 30, 2014		4,825
June 30, 2015		4,996
June 30, 2016 and After		<u>24,032</u>
	\$	<u>47,355</u>

Loans are carried as notes receivable until deemed uncollectible. As of June 30, 2010, no allowance for doubtful accounts has been recorded.

### (4) Notes and Bonds Payable

Annual debt service/loan requirements to maturity for general obligation capital loan notes and grant anticipation capital loan notes are as follows:

Year Ended June 30	General Obligation Capital Loan Notes		Grant Anticipation Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 385,000	114,888	50,000	12,053	435,000	126,941
2012	400,000	107,722	55,000	9,352	455,000	117,074
2013	410,000	99,217	55,000	6,355	465,000	105,572
2014	345,000	89,563	60,000	3,330	405,000	92,893
2015	355,000	79,965	0	0	355,000	79,965
2016	365,000	69,352	0	0	365,000	69,352
2017	375,000	57,373	0	0	375,000	57,373
2018	390,000	44,735	0	0	390,000	44,735
2019	405,000	30,805	0	0	405,000	30,805
2020	420,000	15,810	0	0	420,000	15,810
Total	\$ 3,850,000	709,430	220,000	31,090	4,070,000	740,520

During the fiscal year ended June 30, 2010, the City issued \$1,675,000 in general obligation capital loan notes, series 2010 for the purpose of financing the 2010 street improvement project and to refinance the general obligation capital loan notes, series 2004 (storm sewer project) and the general obligation capital loan notes, series 2003 (street and waste water improvements and drainage project). The general obligation capital loan notes, series 2010 were issued at a discounted price of \$29,312. The net interest cost on these bonds is 3.09%.

During the fiscal year ended June 30, 2010, the City redeemed principal on long-term debt of \$825,000, paid \$119,097 in interest on the long-term debt and paid \$2,791 in note fees. The general obligation capital loan notes and grant anticipation capital loan were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2010.

The grant anticipation capital loan notes are to be repaid from an annual contribution in a minimum amount of \$65,000 to the City of Rock Rapids from the Trustees of the James W. and Ella B. Forster Charitable Trust.

#### **(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2007 were \$29,743, \$27,079 and \$28,327, respectively, equal to the required contributions for each year.

#### **(6) Other Postemployment Benefits (OPEB)**

Plan Description. The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 9 active and no retired members participating in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross and Blue Shield of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$518 for single coverage and \$1,288 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$62,651 and plan members eligible for benefits contributed \$19,492 to the plan.

#### **(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2010, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 37,626
Sick Leave	20,029
Total	<u>\$ 57,655</u>

All of an employee's vacation is paid upon retirement, termination or death. If an employee, except a Library employee, has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. No sick leave is paid upon retirement, termination or death for Library employees. The amount of sick leave reported above only includes sick leave hours for employees that have attained the ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2010.

#### **(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Capital Projects	Special Revenue: Road Use Tax	\$ 11,238
	Urban Renewal Tax Increment	20,789
	General	2,000
		<u>34,027</u>
General	Special Revenue: Local Option Sales Tax	281,927
Total		<u>\$ 315,954</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

#### **(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are mainly covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Please see "Findings Related to the Primary Government Financial Statements: 10-H" in regards to "hangarkeepers coverage" for the airport.

#### **(10) Employee Health Insurance Coverage**

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of up to \$250 under an individual policy and \$500 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

**(11) Intergovernmental Agreement**

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. There were no payments made during the fiscal year ended June 30, 2010.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and postclosure costs to the Agency have been estimated at \$2,207,425 as of June 30, 2010 and the portion of the liability that has been recognized by the Agency as of June 30, 2010 is \$1,222,574. The estimated remaining life of the landfill is 29 years and the capacity used at June 30, 2010 is approximately 55 percent. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2010, assets of \$1,456,299 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and postclosure case costs as required by Chapter 111 of the Iowa Administrative Code. No estimate has been made as to the possibility of any future assessments to the City.

**(12) Commitments**

In February 2010, the City approved contributing \$20,000 to Rock Rapids Kids Club from the General Fund during the fiscal year ending June 30, 2011 for the purpose of economic development.

In February 2010, the City approved continued funding to the Rock Rapids Development Corporation to be paid from the General Fund as follows: fiscal year 2010/2011 - \$50,730; fiscal year 2011/2012 - \$65,730; fiscal year 2012/2013 - \$70,730.

In April 2010, the City entered into a contract for the 2010 Street Improvement project. As of June 30, 2010, the construction was still in process. The total contract amount was \$540,972. During the year ended June 30, 2010, \$99,770 was paid to the contractor, and \$441,202 was the remaining contract outstanding. A portion of this contract is for improvements to the Rock Rapids Municipal Utilities storm sewers on the streets being repaved. The Utilities will reimburse the City for its share of the costs. The Utilities share of the estimated cost of the project is \$59,779 plus an additional \$3,617 in change orders. The contract balance will be paid as work on the project progresses.

In April 2010, the City entered into a contract for \$27,173 for soccer field improvements. During the year ended June 30, 2010, \$24,477 had been paid to the contractor. As of June 30, 2010 the construction was still in process and the remaining contract balance of \$2,696 will be paid as work on the project progresses.

In May 2010, the City entered into a contract for a seal coat project for \$52,608. As of June 30, 2010, no work had been done on the project. The contract balance will be paid as work on the project progresses.

**(13) Subsequent Events**

Events that have occurred subsequent to June 30, 2010 include the following:

- a. In August 2010, the City accepted a bid for the construction of new sidewalks at the soccer fields. Payments totaling \$22,486 for completion of the project were paid from the General Fund.
- b. In August and December 2010, payments were made from the Capital Projects Fund under the contract for seal coating totaling \$56,072 (contracted amount plus overages).
- c. In August 2010, the City paid \$10,000 from the General Fund for an option to purchase real estate and first right of refusal.



- d. In August 2010, the City approved the purchase of a 2010 Case 420-30 skid steer loader and planer for \$38,750 (net of trade in) from the Road Use Tax Fund.
- e. In August 2010, the City paid \$20,000 from the General Fund to the Rock Rapids Kids Club for its fiscal year 2010/2011 commitment.
- f. In December 2010, the City approved the purchase of a brush fire truck from the General Fund for \$51,383.
- g. In December 2010, the City paid \$2,898 (contracted amount plus change order) from the General Fund for the completion of the soccer field drainage project.
- h. In December 2010, the City issued a note receivable of \$40,000 for the purpose of economic development from the Revolving Loan Fund. The note is payable to the City over a period of 10 years at a 3.5% interest rate.
- i. In February 2011, the City approved the purchased of a new Ford F-750 with plow and dump box from the Road Use Tax Fund for \$96,000.
- j. In March 2011, the City entered into a contract for the Forster Development project of \$203,902. In June, 2011, payment of \$51,828 was made from the Capital Projects Fund for work in process done on the project.
- k. In March 2011, the City issued a note receivable of \$20,000 for the purpose of economic development from the Revolving Loan Fund. The note is payable to the City over a period of 10 years at a 3.5% interest rate.
- l. In fiscal year 2010/2011, the City paid \$444,577 (contracted amount plus change orders and overages) per the contract for the 2010 street improvement project from the Capital Projects Fund and the Rock Rapids Municipal Utilities reimbursed the City \$63,396 for the Utilities' portion of the project.

**City of Rock Rapids**  
**Required Supplementary Information**

# City of Rock Rapids

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds Primary Government

### Required Supplementary Information

Year Ended June 30, 2010

	Governmental Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property Tax	\$ 1,148,455	1,154,505	1,154,505	( 6,050)
Tax Increment Financing Collections	124,264	121,735	121,735	2,529
Other City Tax	181,385	158,836	158,836	22,549
Licenses and Permits	7,354	10,000	10,000	( 2,646)
Use of Money and Property	97,100	88,460	88,460	8,640
Intergovernmental	475,247	8,294,030	719,030	( 243,783)
Charges for Service	271,049	269,807	269,807	1,242
Special Assessments	361,821	103,000	103,000	258,821
Miscellaneous	227,835	244,600	244,600	( 16,765)
Total Receipts	2,894,510	10,444,973	2,869,973	24,537
Disbursements:				
Public Safety	275,426	334,773	334,773	59,347
Public Works	885,920	821,276	1,021,276	135,356
Health and Social Services	0	1,000	1,000	1,000
Culture and Recreation	592,245	524,127	664,127	71,882
Community and Economic Development	290,526	617,890	1,017,890	727,364
General Government	214,121	240,614	240,614	26,493
Debt Service	946,888	480,259	1,080,259	133,371
Capital Projects	1,107,806	8,217,800	1,977,800	869,994
Total Disbursements	4,312,932	11,237,739	6,337,739	2,024,807
Deficiency of Receipts Under Disbursements	( 1,418,422)	( 792,766)	( 3,467,766)	2,049,344
Other Financing Sources, Net	1,675,000	0	1,675,000	0
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	256,578	( 792,766)	(1,792,766)	2,049,344
Balances Beginning of Year	2,708,398	2,133,517	3,356,501	( 648,103)
Balances End of Year	\$ 2,964,976	1,340,751	1,563,735	1,401,241

**City of Rock Rapids**

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances—  
Budget and Actual (Cash Basis) – All Governmental Funds  
Primary Government

Required Supplementary Information

Year Ended June 30, 2010

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original and final amended budget included \$4,287,793 in receipts (charges for service), \$4,237,799 in disbursements (business type/enterprises), balance beginning of year of \$4,916,234 and balance end of year of \$4,966,228. The Rock Rapids Municipal Utilities portion of the budget was not changed from the original adopted budget.

## **City of Rock Rapids**

### **Notes to Required Supplementary Information – Budgetary Reporting**

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds (which there are none). The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased overall budgeted disbursements by \$4,900,000. The budget amendment is reflected in the final budgeted amounts.

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted in any function at the end of the fiscal year.

**City of Rock Rapids**  
**Other Supplementary Information**

# City of Rock Rapids

## Schedule of Cash Receipts, Disbursements and Changes in Cash Balances Nonmajor Governmental Funds Primary Government As of and for the Year Ended June 30, 2010

	Special Revenue		
	Employee	Local	Urban
	Benefits	Option	Renewal
		Sales Tax	Tax Increment
Receipts:			
Property Tax	\$ 102,890	0	0
Tax Increment Financing	0	0	124,264
Other City Tax	1,686	177,948	0
Use of Money and Property	0	0	0
Intergovernmental	0	0	0
Charges for Service	0	0	0
Miscellaneous	0	0	0
Total Receipts	104,576	177,948	124,264
Disbursements:			
Operating:			
Public Safety	19,329	0	0
Public Works	50,633	0	0
Culture and Recreation	46,600	0	0
Community and Economic Development	0	0	109,430
General Government	29,577	0	0
Total Disbursements	146,139	0	109,430
Excess (Deficiency) of Receipts Over (Under) Disbursements	( 41,563)	177,948	14,834
Other Financing Sources (Uses):			
Operating Transfers Out	0	( 281,927)	( 20,789)
Net Change in Cash Balances	( 41,563)	( 103,979)	( 5,955)
Cash Balances Beginning of Year	91,310	103,979	32,193
Cash Balances End of Year	\$ 49,747	0	26,238
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special Revenue Funds	\$ 49,747	0	26,238
Permanent Funds	0	0	0
Total Cash Basis Fund Balances	\$ 49,747	0	26,238

See Accompanying Independent Auditor's Report.

Revolving Loan	Permanent		Total
	Library Endowment	Cemetery Perpetual Care	
0	0	0	102,890
0	0	0	124,264
0	0	0	179,634
1,964	0	0	1,964
24,500	0	0	24,500
1,049	0	0	1,049
2,645	0	4,000	6,645
30,158	0	4,000	440,946
0	0	0	19,329
0	0	0	50,633
0	0	0	46,600
50,957	0	0	160,387
0	0	0	29,577
50,957	0	0	306,526
( 20,799)	0	4,000	134,420
0	0	0	( 302,716)
( 20,799)	0	4,000	( 168,296)
102,450	2,000	45,180	377,112
81,651	2,000	49,180	208,816
81,651	0	0	157,636
0	2,000	49,180	51,180
81,651	2,000	49,180	208,816



## City of Rock Rapids

## Statement of Indebtedness – Primary Government

Year Ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Street and Waste Water Improvements and Drainage Project	May 1, 2003	3.25-3.75%	\$ 1,025,000	\$ 445,000	0	445,000	0	15,966	0
Storm Sewer, Drainage and Street Projects	August 10, 2004	3.75-4.50%	225,000	145,000	0	145,000	0	6,221	0
Street Improvements	May 1, 2008	2.90-4.00%	2,550,000	2,360,000	0	185,000	2,175,000	82,183	0
Street Improvements	June 1, 2010	0.90-3.40%	1,675,000	0	1,675,000	0	1,675,000	0	0
Total				\$ 2,950,000	1,675,000	775,000	3,850,000	104,370	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.40-5.55%	\$ 670,000	\$ 270,000	0	50,000	220,000	14,728	0

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

## Bond and Note Maturities – Primary Government

June 30, 2010

## General Obligation Capital Loan Notes

Year Ending June 30,	Street Improvements Issued June 1, 2010		Street Improvements Issued May 1, 2008		Total
	Interest Rates	Amounts	Interest Rates	Amounts	
2011	0.90%	\$ 200,000	2.90%	\$ 185,000	\$ 385,000
2012	1.20%	205,000	3.10%	195,000	400,000
2013	1.55%	210,000	3.20%	200,000	410,000
2014	1.95%	140,000	3.35%	205,000	345,000
2015	2.25%	145,000	3.50%	210,000	355,000
2016	2.80%	145,000	3.60%	220,000	365,000
2017	2.80%	150,000	3.75%	225,000	375,000
2018	3.15%	155,000	3.85%	235,000	390,000
2019	3.40%	160,000	3.90%	245,000	405,000
2020	3.40%	165,000	4.00%	255,000	420,000
		<u>\$ 1,675,000</u>		<u>\$ 2,175,000</u>	<u>\$ 3,850,000</u>

Grant Anticipation  
Capital Loan NotesForster Community  
Building

Issued June 1, 1998

Year Ending June 30,	Interest	
	Rates	Amounts
2011	5.40%	\$ 50,000
2012	5.45%	55,000
2013	5.50%	55,000
2014	5.55%	60,000
	Total	<u>\$ 220,000</u>

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

Schedule of Receipts by Source and Disbursements by Function –  
All Governmental Funds  
Primary Government

For the Last Eight Years

	2010	2009	2008	2007	2006	2005	2004	2003
Receipts:								
Property Tax	\$ 1,148,455	1,243,128	1,204,514	1,281,476	1,143,078	1,181,996	1,188,762	1,004,626
Tax Increment Financing	124,264	116,926	106,300	97,323	58,816	65,530	59,727	25
Other City Tax	181,385	181,954	172,028	177,454	150,698	149,617	136,968	139,648
Licenses and Permits	7,354	10,424	10,685	10,183	10,309	10,032	7,618	7,680
Use of Money and Property	97,100	134,375	118,728	154,024	110,411	67,482	52,561	55,240
Intergovernmental*	518,490	854,690	454,564	569,711	631,132	502,983	722,305	559,510
Charges for Service	271,049	274,967	261,576	254,122	232,992	229,100	224,826	206,317
Special Assessments	361,821	26,282	3,292	4,565	3,414	3,915	25,120	107,964
Miscellaneous	184,592	114,904	142,721	153,097	277,009	123,193	185,300	136,677
Total Receipts	\$ 2,894,510	2,957,650	2,474,408	2,701,955	2,617,859	2,333,848	2,603,187	2,217,687
Disbursements:								
Operating:								
Public Safety	\$ 275,426	462,199	237,072	208,849	205,274	250,076	242,243	224,089
Public Works	885,920	499,689	602,819	461,370	507,579	449,503	601,982	412,233
Culture and Recreation	592,245	461,023	489,112	512,154	515,733	472,025	384,414	336,579
Community and Economic Development	290,526	252,009	224,259	210,810	332,804	239,382	370,103	58,903
General Government**	214,121	176,716	170,643	163,409	153,684	152,184	206,552	559,428
Debt Service	946,888	899,413	840,100	606,850	538,022	483,111	515,759	1,046,698
Capital Projects	1,107,806	1,952,377	432,012	577,829	61,206	183,434	95,876	616,287
Total Disbursements	\$ 4,312,932	4,703,426	2,996,017	2,741,271	2,314,302	2,229,715	2,416,929	3,254,217

\*Intergovernmental includes a \$100,000 donation in both 2007 and 2003 from the Rock Rapids Municipal Utilities that were reported as "special items".

\*\*General government includes a \$277,300 donation in 2003 to the Rock Rapids Municipal Utilities that was reported as a "special item".

See Accompanying Independent Auditor's Report.

**City of Rock Rapids**

**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

# **DE NOBLE & COMPANY PC**

Certified Public Accountants

## **MEMBERS**

111 S. Story Street  
Rock Rapids, IA 51246

American Institute - Certified Public Accountants  
Private Companies Practice Section  
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549  
Fax : (712) 472-2540  
Email : ssdnrr@hickorytech.net

### **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic primary government financial statements listed in the table of contents, and have issued our report thereon dated June 29, 2011. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2010, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Rock Rapids' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 10-A, B, E, F, H and K to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 10-C, D, G, I and J to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Rapids' primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Rock Rapids' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Rock Rapids' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rock Rapids, Iowa and other parties to whom the City of Rock Rapids may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rock Rapids during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



De Noble & Company PC  
Certified Public Accountants

June 29, 2011

## City of Rock Rapids

### Schedule of Findings

Year Ended June 30, 2010

#### **Findings Related to the Primary Government Financial Statements:**

##### **INTERNAL CONTROL DEFICIENCIES:**

10-A      Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly approve time sheets, check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices and review the financial records.

Response – We will continue to investigate the options we have within economic constraints and segregate duties to the extent possible with existing personnel. We have made arrangements to utilize the Rock Rapids Municipal Utilities personnel to prepare the bank reconciliations for our accounts.

Conclusion – Response accepted. It is important that you continue to attempt to implement these recommendations.

10-B      Records of Accounts – The Library Board maintains the accounting records pertaining to the operations of the Library. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of the Library Board are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board has an individual who is willing and able to provide her services for no additional remuneration, the City Clerk will continue to review the Library Board's reports that are provided on a monthly basis as a form of control.

Conclusion – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

10-C      Capital Assets/Inventory Records – A complete record of capital assets/inventory is not maintained. Capital assets are not all marked for identification purposes.



## City of Rock Rapids

### Schedule of Findings

Year Ended June 30, 2010

Recommendation – To facilitate the proper insurance, maintenance and safeguarding of these assets, such records should be established. A reconciliation of all property, equipment and inventory should be taken by an independent person at least once a year and compared against capital assets/inventory records. Capital assets should be marked for identification purposes to assist in the existence and accountability functions.

Response – The administrative office and public works department have compiled a complete record of mobile equipment assets and are continuing to work toward compiling a complete record of capital assets.

Conclusion – Response accepted. Please continue to make an effort to work on this and marking capital assets for identification purposes.

10-D Off-Site Storage of Manual Records – Some manual records should maybe be duplicated and the copies stored at an off-site location.

Recommendation – Sensitive manual records should be evaluated for needed protection and stored at an off-site location.

Response – We will continue evaluating the manual records for what may need to be stored off-site.

Conclusion – Response accepted. Please do attempt to evaluate the manual records.

10-E Payroll Time Sheets/Time Cards – Payroll time sheets/time cards are not always being signed/initialed by the employee. Additionally, the employee's direct supervisor should be signing the time sheets/time cards as indication that the time sheet/time card has been formally approved.

Recommendation – The City should consider the need to require all City personnel sign their daily time sheets or time cards. All City time cards/sheets should have signature lines for the employee and the employee's direct supervisor that should be required to be completed before payroll is paid in order to attest to the accuracy of hours worked.

Response – Procedures have been established to require that time sheets and time cards are formally approved and signed by the employee's supervisor during payroll processing.

Conclusion – Response accepted. Please make sure the procedures are followed.

## City of Rock Rapids

### Schedule of Findings

Year Ended June 30, 2010

- 10-F      Job Rotations – Financial personnel’s duties are not always rotated for a period of time each fiscal year.
- Recommendation – The City should consider the need for financial personnel to annually take a minimum amount of vacation time and each person’s duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee’s position in case of an emergency to provide backup support.
- Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.
- Conclusion – Response acknowledged. Please attempt to rotate financial personnel’s duties on a regular basis. Please make sure the Library addresses this also.
- 10-G      Compensated Absences – We noted that one employee’s accumulated compensated absence balance was incorrectly calculated. We also noted that there were four employees that had an extra month of sick leave added to their sick leave balance as of June 30, 2010. Additionally, we noted that there were instances where accumulated comp time exceeded a total of 40 hours, which was in violation of the employee handbook.
- Recommendation – The City should establish policies and procedures to ensure that the amount of accumulated compensated absences and the sick leave liability are correctly calculated. Additionally, the City should review the policy regarding accumulated comp time and consider whether the application of the policy is reasonable in relation to the actual workload necessary during certain time of the year.
- Response – The City has installed new software that automatically calculates accumulated compensated absence balances which should reduce calculation errors. We will review the accumulated comp time policy to make sure it supports the operations of the City.
- Conclusion – Response accepted.
- 10-H      Insurance Policy – The City has received a recommendation from its insurance provider to require “hangarkeepers coverage” in the Airport’s fixed base operator lease. This is a separate policy that covers the aircraft that is being serviced or repaired by the lessee, as this is not covered by the general liability policy.
- Recommendation – The City should consider the need to require in its operator lease or maintain adequate “hangarkeepers coverage”.
- Response – The City will continue to evaluate the necessity to require “hangarkeepers coverage”.
- Conclusion – Response accepted. Please make sure your City Attorney and insurance agent are in agreement that you have adequate coverage.

## City of Rock Rapids

### Schedule of Findings

Year Ended June 30, 2010

- 10-I      Accounting Procedures Manual – The City Library does not have an updated accounting procedures manual for the Library’s accounting system.
- Recommendation – An updated accounting procedures manual should be prepared and implemented for the Library’s accounting system.
- Response – We will work on updating the Library’s accounting procedures manual.
- Conclusion – Response accepted.
- 
- 10-J      Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.
- Recommendation – City management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. City management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.
- Response – The City expects to completely resolve items 10-E, 10-G and 10-2, and to continue to work on other items within time constraints.
- Conclusion – Response accepted.
- 
- 10-K      Financial Reporting – During the audit, we identified material amounts of receipts and disbursements not recorded properly in the City’s financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.
- Recommendation – The City should implement procedures to ensure all receipts and disbursements are identified and included in the City’s financial statements. Management should be reviewing the financial records on a regular basis to help ensure the accuracy of the financial records.
- Response – These entries were made in relation to the set-up of new funds in our new accounting system and do not anticipate having to make similar entries in the future.
- Conclusion – Response accepted.

### INSTANCES OF NON-COMPLIANCE:

No matters were noted.

## City of Rock Rapids

### Schedule of Findings

Year Ended June 30, 2010

#### **Other Findings Related to Required Statutory Reporting:**

10-1 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amount budgeted for any function.

10-2 Questionable Expenses – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

The City purchased flowers for the funeral of an employee/council member’s family and for a Library volunteer laborer.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin. While the City had approved an acceptable written gift policy, these disbursements were completed prior to the approval of the policy.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies (example: a written food, gifts and sustenance purchases policy should be adopted by the Council) and procedures, including the requirements for proper documentation.

Response – The City has drafted a written policy that identifies the public purpose served by certain types of disbursements subject to proper documentation.

Conclusion – Response accepted.

10-3 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

10-4 Business Transactions – No business transactions between the City and City officials or employees were noted.

10-5 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

10-6 Council and Board Minutes – No transactions were found that we believe should have been approved in the Council or Library minutes but were not. However, per the Iowa Code Chapter 372.12(6), the City is required to both provide public notice for all committee and advisory board meetings and to publish the minutes of all council meetings within 15 days of each meeting. It was noted that the City does not

provide public notice for all committee and advisory board meetings. Additionally, it was noted that there were two instances where the City did not publish the meeting minutes within the required 15 days.

Recommendation – The City should post public notice for all committee and advisory board meetings. Further, the City should implement policies and procedures to ensure that the minutes of all council meetings are published within 15 days of each meeting.

Response – We will post public notice for all committee and advisory board meetings in accordance with the code of Iowa. We will work toward ensuring that all open meeting requirements are met.

Conclusion – Response accepted.

10-7 Deposits and Investments – The City complied with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's written investment policy.

10-8 W-2 Reporting – The City Council authorized gift certificates to employees and properly documented the disbursement. The City treated these payments as non-taxable to employees, when in actuality, these are taxable earnings to the employees per Internal Revenue Code regulations.

Recommendation – The City should follow Internal Revenue Code regulations by properly reporting gift certificates issued to employees as taxable earnings to the employees. The City should amend prior tax reports and forms that were filed improperly.

Response – We will implement procedures to ensure gift certificates issued to employees are reported as taxable.

Conclusion – Response accepted.

**City of Rock Rapids**

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor  
Carmen Austin, CPA, Senior Auditor  
Curt Robison, Assistant Auditor  
Craig Hoekstra, Assistant Auditor

De Noble & Company PC  
Certified Public Accountants